

# I. EXECUTIVE SUMMARY

## INTRODUCTION

VWB Research completed a detailed assessment of modern/modernized, multi-unit, downtown housing in the following 17 major Michigan cities: **Ann Arbor, Battle Creek, Bay City, Canton Township, East Lansing, Ferndale, Flint, Grand Rapids, Holland, Jackson, Kalamazoo, Lansing, Midland, Muskegon, Pontiac, Port Huron, and Saginaw**. Each area studied, or Downtown Study Area (DSA) as it is referred to throughout the report, was established after consultations with MSHDA and local city officials. The study's focus is residential properties with four or more dwelling units on one downtown site that were built or substantially renovated since 1970. Occupants are ambulatory, living independently, and paying 100% of housing costs (no subsidies). Dwelling units are rented or owned. Our approach to data collection included: personal interviews with city officials, field documentation of housing properties, Internet research, attitudinal surveys of city officials, developers, rental owners and residents, and demographic services.

Owned and leased, multi-unit, downtown housing is emerging as a viable choice for residents of Michigan's larger cities. MSHDA has an interest and investment in its continued success. Michigan downtowns need to retain and attract permanent residents, if they hope to revitalize and prosper. This report investigates current downtown resident profiles, future downtown housing users, the condition and performance of current multi-unit, downtown housing, and the desirability (market strength) of downtown living. The following represents a synopsis of significant findings, conclusions, and recommendations.

## SIGNIFICANT FINDINGS & CONCLUSIONS

- The most important ingredient for a thriving downtown is **people** (and the resulting pedestrian traffic). A city must draw people downtown and involve them on a streetscape level. There are only three sources of downtown users: (1) daily **workers**, (2) permanent **residents**, and (3) short-term **visitors**. There are three primary ways to lure these people downtown: (1) **jobs/campuses**, (2) **housing**, and (3) **attractions** (equates to the *desired qualities of living* in Section III-D). Downtowns that lack any one of these three elements will continue to struggle for vitality. Housing is not created or sustained unless jobs and attractions are present; jobs are not created or sustained unless housing and attractions are present; and, attractions are not created or sustained unless housing and jobs are present. None of these elements function properly in isolation; rather they depend on synergy for success and growth. This study focuses on the "housing" element of the triad, more specifically modern, unsubsidized, multi-unit properties. This is the housing market that has the greatest potential for fueling downtown revitalization and prosperity.

- Under this study's demand model, potential downtown housing users of modern, unsubsidized, multi-unit properties must find living arrangements and surrounding environments/neighborhoods sufficiently desirable to motivate a household move. Demographic and resident survey data indicate that current downtown housing users of modern, unsubsidized, multi-unit properties are:
  - **equally male and female**
  - **either young adults** (18 to 34 years) **or seniors** (age 55+ years)
  - **living alone or with one other person** (spouse/ roommate/partner)
  - **well-educated** (sophisticated)
  - **earning more than area median income**
  - **childless**
  - **equally owners and renters**
  - **newcomers to downtown living** (less than three years residency)
  - **full-time workers employed outside the home or retired**

This profile describes nearly **30% of all existing city households** in this study and nearly **20% of all existing DSA households** in this study. Typically, a DSA is capturing **only 2.0%** of all available households that meet the downtown housing user profile and live within its city. Only a small portion of these non-DSA households (the 98% living outside the DSA, but within the city) needs to be convinced to move downtown. To do this, cities and their local developers must deliver more and better housing properties in better downtown environments. Both groups must craft living environments that cater to the desires of current and future downtown housing users.

- This study has determined that potential housing users judge up to **30 housing attributes** and **20 environmental attributes** (see Section III-D) when deciding whether to move downtown. They must achieve a certain level of satisfaction with these attributes before motivated desire becomes a downtown move. DSA cities (and their developers) are performing at different levels to make their downtowns more desirable for housing users. Based on the desirability ratings and quantified available users in this study, **Ann Arbor, East Lansing, Lansing, Grand Rapids, and Kalamazoo** have more desirable downtowns and stronger housing markets as a result. **Bay City, Holland, Midland, Port Huron, and Ferndale** have moderately desirable downtowns and average housing markets as a result. And, **Battle Creek, Jackson, Muskegon, Pontiac, Flint, and Saginaw** have less desirable downtowns and weaker housing markets as a result. All of these cities have the potential to strengthen their DSA housing markets by making their downtowns and housing more desirable. Each city must contend with its acquired baggage of strengths and weaknesses. The secret is to fully exploit the strengths, while rapidly improving the weaknesses.

- Developers must focus on providing desirable housing at various price points, whether it is owned or rented. Markets exist for both “for-sale” and “for rent” properties within DSAs. Owners, when compared to renters, are typically:
  - older
  - more often males
  - less likely to be living alone
  - more likely to be childless
  - earning higher incomes
  - more educated
  - less likely to be students
  - less likely to be working downtown
  - more likely to have moved from within downtown
  - more likely to have owned their prior residence
  - paying more for housing
  - more satisfied with their residence and downtown
  - living in larger units

Conversely, renters, when compared to owners, are typically:

- younger
- more often female
- more likely to be living alone
- more likely to have children
- earning lower incomes
- less educated
- more likely to be students
- more likely to be working downtown
- less likely to have moved from within downtown
- more likely to have rented their prior residence
- paying less for housing
- less satisfied with their residence and downtown
- living in smaller units

Owners seek open floor plans, security systems, secured building entries, and covered parking, while renters seek security systems, in-unit washers/dryers, secured building entries, and elevator service. Neither finds pools nor outdoor play areas to be important features. Both like their downtowns for their eating and drink establishments, cleanliness, and appearance. Both rate public schools and job markets as the worst aspects of their downtowns. Owners move downtown for unique living places and high levels of activity, while renters are motivated by increased personal safety and closer proximity to work and school. Since renters live alone more than owners, they need fewer parking spaces.

- On average, 30% of all DSA households live in modern/modernized, unsubsidized, multi-unit housing properties with four or more units (the study's focus). Less than one-third (one in three) of all DSA residents currently have the resources (income, employment, and education) to be the engine of growth for Michigan downtowns. Until and unless DSA cities and their local developers turn this minority group into a majority player, downtown prosperity will be limited.
- Multi-unit downtown living is best suited for households without children. Typically, large downtowns are not family-friendly places in which to reside due to smaller unit sizes, denser and taller buildings, elevator access, a disconnect between units and the ground, lack of convenient outdoor play areas, increased crime levels, poorly performing school systems, few playmates, noise, missing retail services, long distances between living units and parked cars, and busy streets. In 2007, only 22% of all DSA households are estimated to have children (and these children most likely reside in the single-family fringe neighborhoods within DSAs). Only 4.8% of resident survey households reported children at home. In 2007, childless households constitute nearly 60% of all Michigan households. This is the vast target population that is well suited for downtown living, and must be attracted to DSAs.
- Downtown living is unique from, and different than suburban living. To be more desirable, downtown living must incorporate those aspects of suburban living that people find most appealing. Downtown living has two major components, the housing itself and the environment in which it is located. Housing issues such as unit size, privacy, noise, outdoor living, security, and parking must be managed creatively by housing developers, so that the perceived benefits of suburban housing are delivered downtown. Likewise, environmental issues such as public safety, cleanliness, public events, user-friendly streetscapes, and recreational offerings must be provided downtown by cities at levels commensurate with their suburban counterparts. If desirable suburban attributes cannot be directly replicated downtown, then compensating alternatives must be provided (e.g. a park instead of a backyard; a view instead of a hiking trail; or a well sound-proofed common wall instead of a side yard). If sought-after aspects of suburban living can be fused with the unique aspects of individual DSAs, households will desire and return to downtown living.
- Cities must take the lead in downtown housing by preparing the environment for the developer's product. Cities do not have to build and operate the housing, but they must ensure that the environment will support its success. Developers must decide what product to offer, and nurture it to a healthy occupancy. The state should act as overseer of the entire process, and offer technical advice and financial assistance when warranted. Developers appear to wait until cities provide healthy environments in which to build. The state must help cities prepare their downtowns for developers.

## **Demographics**

- On average, DSAs lost population and households during the decade of the 1990s at a combined rate of 1.5%. These decreases are expected to accelerate from 2000 to 2012 with a combined rate exceeding 6.0% for the period. More households are leaving downtowns than are arriving, and the rate of this net loss is projected to quicken with time. In general, people no longer consider DSA environments desirable places to live. Household growth is expected in the DSAs of Ann Arbor, Grand Rapids, Kalamazoo, Midland, and Muskegon from 2000 to 2012. These DSAs appear to be enjoying a certain level of desirability. However, dramatic decreases (greater than 10%) in household numbers are projected for the DSAs of Port Huron, Battle Creek, Bay City, Lansing, and Saginaw during this same period. These cities must reverse this trend by making their downtowns more attractive places to live and work.
- While there is no direct relationship between daytime population and resident population in DSAs, nearly four times more people work within a DSA than live. According to the study's downtown resident survey, only one-third of working respondents live and work in the same downtown. DSA cities must increase this downtown live/work percentage to become more vibrant.
- On average, DSAs contain **2.2%** of their city's population, **2.6%** of their city's households, and **2.7%** of their city's housing units. These values represent extremely small portions of each city. If DSA cities expect to improve the overall health of their downtowns, these percentages must be increased dramatically. Downtowns are not attracting sufficient people to sustain revitalization efforts. In 2007, the typical DSA is expected to have 14.0% more housing units than households. Vacant housing units should be eliminated or significantly reduced, if downtown living is to improve.

## **Housing Supply**

- Of the DSAs surveyed for housing, 11 have rental and condominium properties, two have rental properties only, two have condominium properties only, and three have no properties at all. When the DSAs in the aggregate analyses are averaged, each yields 588 households, 227 surveyed housing units (serving 38.6% of households), 2.5 rental properties with 39 units each, and three condominium properties with 42 units each. When only the DSAs with surveyed units are averaged, each yields 689 households, 275 surveyed housing units (serving 39.9% of households), three rental properties with 38 units each, and four condominium properties with 40 units each. To date, DSA cities and their developers have not produced multi-unit housing properties in significant numbers to impact available downtown housing user markets. There is ample room for more supply, if cities adequately address the other two elements of the downtown triad, "jobs" and "attractions".

- Nearly twice as many condominium units are on the drawing board as rental units. Moreover, 62% of these proposed units are targeted for Grand Rapids and Ann Arbor, where 53.7% of all existing units are located. It appears that most of the current and future housing supplies are concentrated within only a few DSA markets. Most DSA properties, whether existing or proposed, range in size from 35 to 50 units. This appears to be the optimal size for a reasonable sales period.
- Almost three out of four surveyed multi-unit housing properties have opened within the past seven years. Modernized, unsubsidized, multi-unit housing in downtowns is a phenomenon of this decade. Before 2000, more rental properties opened than condominium properties. However, since 2000, more condominium properties have opened than rental properties. Condominiums appear to be the preferred form of living in DSAs thus far this decade.
- The population size of a city does not necessarily dictate the amount or quality of its downtown living. In this study, the ratio of “city population” to “surveyed downtown housing units” is not constant among DSAs. Muskegon, Ann Arbor, and Grand Rapids have the most surveyed DSA housing units per capita. Battle Creek, Saginaw, and Midland have the least number per capita. Just because a city has a large population does not mean that it has a healthy downtown housing market. Many more factors are at work than just size; the *desired qualities of living* are the key. Moreover, the “number” of housing units in a DSA is not an automatic indicator of downtown health either. It is the number of “occupied” housing units.

### **Surveys**

- There is a disconnect among developers, cities, and residents evidenced by the results of the four attitudinal surveys in this study. Although some sentiments are shared, differences abound. This disconnect suggests a need for better communication and understanding among all three parties involved in downtown living. Cities must better understand what developers need to deliver quality housing downtown, and what motivates their citizenry to move downtown. Developers must better understand the desires of downtown residents, and how cities can become their partners in delivering quality downtown housing. Citizens of DSA cities must express more clearly their specific desires for downtown improvements and living accommodations.
- In general, city officials believe that a “high activity level” and a “good quality of life” encourage downtown living, while “weak housing markets” and “struggling job markets” discourage it. City respondents cite “entertainment”, “activities” and “user-friendly streetscapes” as the primary motivators for downtown moves. A “lower cost of living” is not motivating people to relocate downtown in their opinion.



- City officials cite supermarkets and home improvement stores as the most common retail services missing from their downtowns. They believe these missing retail elements are “somewhat” hampering downtown housing and living. City staffs insist that major entertainment venues are critical to attracting downtown residents. Most city officials agree that downtown housing has helped downtown businesses “some” or “a lot”, and understand the importance of this symbiotic relationship. To further stimulate downtown living, city officials say they must increase retailers, deliver housing at various price points, promote the positive aspects of downtown living, conduct research studies, and improve the image of multi-unit housing. Two-thirds of city respondents cite some kind of homelessness problem that is adversely affecting the growth of downtown living. This issue appears to be a significant obstacle to desirability.
- Surprisingly, three out of four DSA city officials report moderate to strong housing markets in their downtowns that are supported by recent, professional housing studies. These studies seem to confirm what is written in this report: there are significant numbers of potential downtown housing users in all DSA cities. All city respondents agree that they must have state assistance to accomplish downtown housing. City officials are eager to promote downtown living, but many lack the technical skills and resources to actually deliver it. They are receptive to state assistance and training. DSA governments are focused on downtown housing. Comprehensive planning is needed that recognizes the critical role of the “desired qualities of living” identified in this study.
- Developers say that they seek downtowns with a “good quality of life” and “available properties” when selecting communities in which to work. They agree with city officials in citing “weak housing markets” and “struggling job markets” as the primary deterrents to downtown housing. About one in three developers have had difficulties with their downtown housing developments. Of the majority that have had positive experiences, most will undertake another downtown housing project. Two-thirds of developers believe that cities with populations below 40,000 are risky places to build and operate downtown housing.
- Developers report that parking and security are the two most important issues to address in downtown housing. Developers want easier and quicker approvals, financial assistance and incentives, and tax relief from the cities in which they operate. Over 75% of developers agree that city and state assistance are critical to the success of downtown housing. From the developers’ standpoint, the incorporation of commercial space in downtown housing properties is worthwhile. Developers say that the most common downtown resident type is a single adult living alone, followed by married couples without children.

- For downtown residents, the most important factor in their decision to move downtown was “personal safety and building security”, followed by “unique living spaces”, and a “high level of activity”. These reasons differ from those cited by developers and cities. The least important factors for moving downtown were job seeking, retail services, and public outdoor spaces. When asked for the main reason they moved downtown, most residents said “proximity to school or work”. Although residents want safe, unique places to live with lots of things to do, it seems that being closer to work or school is the primary force driving downtown moves.
- Most surveyed residents are very or extremely satisfied with their residence (84.5% combined). When asked what they like best about their residence, residents cite proximity to work-school-neighborhood services most, followed by unique buildings, and good unit designs. The most problematic issue is parking, followed by noise and odors, poor construction and design, high prices, lack of private outdoor areas off unit, and poor management.
- Most surveyed residents are very or extremely satisfied with their downtown (85.8% combined). The most desired downtown attributes are convenience to work-school-shopping and an abundance of things to do. The least desired attributes include crime and homelessness, parking, noise, odors, and traffic. When asked to rate downtown attributes, highest scores go to eating/drinking establishments, cultural arts, and cleanliness/appearance. Lowest scores go to job markets, retail services, and public schools. Typically, a resident is more satisfied with their downtown than their residence. The primary reasons cited for moving out of downtown include: lower housing costs, get a bigger place, employment changes, health changes, or the arrival of children. Satisfaction levels do not seem to correlate with housing property performance. Owners, seniors, wealthier people, non-students, and childless adults are generally more satisfied with their residences and downtowns than their counterparts (renters, young adults, poorer people, students, and families).

## **RECOMMENDATIONS**

- Michigan cities with more than 30,000 people and a definable downtown area should assess the health of their downtowns. The primary areas of introspection could be the three elements of the downtown “people-generator” triad: jobs/campuses, housing, and attractions. For the housing and attractions components, cities could use the “desired qualities of living” as evaluation criteria. Cities need to know where they stand on the downtown health continuum, so that their strengths and weaknesses are revealed. In so doing, cities can implement actions to promote their strengths and improve their weaknesses. Further, downtown dollars can be allocated more effectively by knowing specific areas to target.



This assessment/betterment process should result in downtowns that are more desirable places to live. These evaluations could be done annually to keep the focus on downtown living issues, and to measure progress. For weaknesses that do not improve, the state could recommend corrective actions.

- This study (using its own assessment method) reveals that DSAs fall within three levels of desirability and corresponding housing market strength: (1) high and strong, (2) moderate and average, and (3) marginal and weak. For DSAs that are highly desired and have strong markets, the focus should be on the “housing” component of the “desired qualities of living” paradigm. For DSAs that are moderately desired and have average markets, the focus should be on both the “housing” and “environmental” components of the paradigm. And, for DSAs that are marginally desired and have weak markets, the focus should be on the “environmental” component of the paradigm. When considering the allocation of resources and the funding of housing proposals, great care should be taken in placing the right housing product in the right downtown environment. This should enhance the chances for long-term success. Greater scrutiny should be employed with DSAs in the lowest tier of desirability and market strength. In these downtown locations, developers and cities should demonstrate a proper match between product and neighborhood health before approvals are issued.
- Interviews with DSA city officials revealed that local governments’ efforts with downtown living are often disjointed and unfocused. They need a skilled point-person to lead, coordinate, and advance downtown living activities. Michigan cities with more than 30,000 people and a definable downtown area should consider the appointment of a “downtown living specialist” whose job it would be to improve and expand all aspects of downtown living (not just housing). This specialist would work with the state, developers, downtown residents and business groups, the DDA, city staff, and other local groups involved in downtown living. If the state and their larger cities are committed to the revitalization of Michigan downtowns, then a “downtown living specialist” position in each city could play an important role in achieving success.
- MSHDA should consider providing assistance and incentives to all three parties involved in downtown housing: cities, developers, and residents. Cities need help to improve downtown environments; developers need help to create better downtown housing; and residents need a reason to move or remain downtown. Programs/policies should be designed to motivate each of these three players to participate. In addition, they should address all price-points, both tenure types, and various socioeconomic groups. Some DSA cities need affordable rental housing to recruit and retain younger residents for retail jobs, while others want high-end condominium housing to recruit and retain older citizens. Downtown living is enhanced and strengthened by the co-existence of various peoples. DSA cities should have an understanding of their downtown “people” needs.

- Most DSA cities appear to lack a comprehensive strategy for improving their downtown living environment. They could benefit from a better understanding of the forces, issues, and relationships that are at work within their downtowns. The state could play an active role in assisting DSA cities with strategic planning activities. While the “downtown living specialist” program could be a step in that direction, the state could go farther by providing hands-on training for DSA cities. Housing developers wait for cities to improve downtowns; it appears that cities are waiting for the state to help them with these downtown improvements.
- Downtown housing is more difficult and risky than its suburban counterpart. Public agencies need to recognize this fact, and become more proactive as a result. To attract developers (and their housing properties), the public sector should adopt policies/programs that make it easier for them to find and deliver the goods. The difficulties and risks of downtown housing should be offset with compensating incentives. Cities should favor and facilitate any downtown development, but particularly those with residential components. Assistance with zoning and building codes, parking options, security issues, site identification and acquisition, public amenity linkages, environmental remediation and reclamation, tax reductions and abatements, fee reductions and waivers, research studies, infrastructure improvements, housing coalitions and historic districts, downtown living promotion, and entitlements and approvals should be offered. A genuine partnership between public and private sectors must be forged, if Michigan downtowns are to become healthy again. Cities need people downtown, and housing is the only mechanism for having them there permanently. However, public entities should reserve the right to withhold assistance/incentives from housing proposals that are located in downtowns with unproven health and desirability.
- From our field survey of properties and the attitudinal surveys of housing participants, it appears that on-site features and amenities in DSA housing properties are neither plentiful, nor aligned with resident preferences. For example, developers believe that the most important unit feature is an open floor plan, while residents say it is a security system. For property features, developers believe the most important is a secured building, while residents say it is covered and secured parking. The field survey of housing properties aggregately shows that only 18.5% of units have secured parking, and 9.2% of units have security systems. Moreover, the resident survey cites “parking” as the item respondents like least about their residence. There is not only a disconnect between what developers and residents want in downtown housing, but there is also a disconnect between what is thought and then actually provided. Downtown housing developers should address these product planning discrepancies. With the need to attract more housing users downtown, developers must deliver housing products with more resident-desired features, both within the unit and on the property.

- The state should conduct an annual Downtown Living Symposium with participants such as retailers, city and DDA staff, developers, architects, housing coalitions, public agencies, and chambers of commerce. Workshop sessions could be divided into the “people-generator” triad elements: jobs/campuses, housing, and attractions. The “desired qualities of living” could also be used for discussion topics. This yearly symposium could include problem-sharing, case studies, anecdotal stories of success and failure, technical training and assistance, new program brainstorming, vendor exhibits, and guest speakers. This could be the venue where the under utilized Request For Proposals process is taught to cities and developers. This event could become the annual clearinghouse for Michigan downtown living, and be hosted by a different DSA city each year.
- During the performance of this study, the following topics were identified for future MSHDA studies:
  1. Develop this study’s “desired qualities of living” into a “desirability scorecard” for cities. This would involve operationally defining the 50 qualities of living (housing and environmental attributes), and securing empirical data to score each quality. The resulting scorecard could be used to accurately assess and track the desirability of downtown living over time. Dollars could then be targeted at the downtown qualities that are most in need of improvement.
  2. Perform a follow-up study to this report in 2011, after the 2010 census data is available. During this four-year period, many changes will occur in the DSAs. The census data will be fresh and accurate; the 2,353 proposed downtown housing units identified in this study will or will not have been built; and the current economic conditions will have made their impact. This current study could be used as a baseline for the 2011 follow-up study.
  3. Study in more depth the “own versus rent” decision-making process of downtown residents. This would involve the identification of factors used in the tenure decision, and testing them with a survey instrument. The results would be helpful to those interested in planning and delivering different types of downtown housing.
  4. Investigate the impact of increasing energy costs (gasoline and heating/cooling fuels) on where people choose to live. It would be interesting to see if increasing energy costs render downtown living more attractive and desirable.